

# UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

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forum

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## SEPTEMBER 2010

### Analysis

The University of Oregon Index of Economic Indicators™ rose 0.2 percent to 86.2 (1997=100), the first increase since June. Compared to six months ago, more than half the index components declined while the UO Index fell 6.4 percent (annualized). Incoming data continue to signal a weak economic environment. The twin forces of inventory correction and fiscal stimulus waned in 2010, and subsequent growth has been insufficient to generate a rapid reversal of the labor market losses experienced in 2008 and 2009.

Labor market indicators showed improvement. Initial unemployment claims fell sharply to their lowest levels since March, a welcome reversal of the upward trend of the past five months. The improvement suggests that the labor market firmed in September. Still, expectations of dramatic improvement would be premature as claims remain well above levels consistent with sustained job growth. Employment services payrolls—largely temporary hiring—rose slightly, but

the overall trend in recent months remains disappointingly weak. Aggregate nonfarm payrolls for Oregon (not included in the index) fell 1,800 compared to a revised loss of 2,800 in August, while the unemployment rate again held at 10.6 percent.

Residential building permits (smoothed) were largely unchanged during September, holding just shy of 500 permits for the third consecutive month. The Oregon weight distance tax (smoothed), a measure of trucking activity, edged up during the month. Still, overall gains in trucking activity have been limited, with most of the improvement from recession lows occurring in the second half of 2009. New orders for nondefense nonaircraft capital goods fell slightly, continuing their generally sideways trend since June. Consumer confidence (smoothed) declined for the third consecutive month. Household spending continued to suffer under the weight of persistently weak job growth. The interest rate spread between ten-year treasury bonds and the federal funds rate dropped for the fifth consecutive month. The spread declined as market participants grew confident that the Federal Reserve would ease monetary conditions further to support flagging

economic activity. The Federal Reserve matched those expectations on November 3, 2010, with the announcement of an expanded program of quantitative easing.

Overall, the UO Index continues to follow a pattern similar to its behavior in the 2001–3 period. The 2001 recession was followed by a sharp but temporary upturn in the UO Index. A subsequent reversal of gains signaled renewed economic weakness. The resulting “echo” recession triggered a renewal of job losses, albeit the declines were not as severe as those of the 2001 recession. Assuming the pattern is repeating itself now, the UO Index signals that, at a minimum, sustained labor market recovery will be delayed until next year with actual job losses possible over the next three to six months.

### UO Index of Economic Indicators

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis

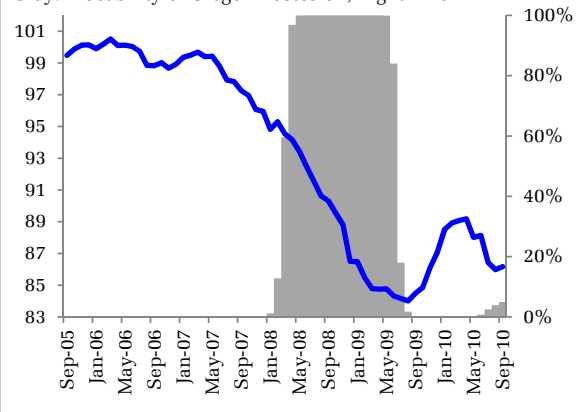


Table 1: Summary Measures

	2010					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
University of Oregon Index of Economic Indicators™, 1997=100	89.2	88.0	88.1	86.4	86.0	86.2
Percentage Change	0.1	-1.3	0.1	-1.9	-0.5	0.2
Diffusion Index	50.0	35.7	57.1	7.1	35.7	50.0
Six Month Percentage Change, Annualized	10.4	4.5	2.4	-4.7	-6.5	-6.4
Six Month Diffusion Index	100.0	85.7	71.4	28.6	35.7	28.6



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**Methodology and Notes**

The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see [www.globalindicators.org](http://www.globalindicators.org).

The UO Index is a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general rule, a decline in the index of greater than 2.5 percent (annualized) over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. Using the rule, the index signaled an impending recession in October 2000; a business cycle dating procedure developed by Jeremy Piger, a University of Oregon associate professor of economics, indicates Oregon entered recession in November of 2000. Similarly, the UO Index suffered a sharp drop ahead of the recession in 2007.

The general rule, however, should be used judiciously. Using the rule the UO Index indicated recession for a single month in 1998 during the Asian financial crisis. More recently, the UO Index sent recessionary warnings in the middle of 2006, well before Oregon actually slipped into recession at the end of 2007. Moreover, no single variable is capable of decisively determining the state of the business cycle. Consequently, the UO Index of Economic Indicators is best considered as another tool in assessing the economy.

Sources: The Conference Board, Oregon Department of Transportation, Oregon Employment Department, Federal Reserve Bank of St. Louis, Bureau of Labor Statistics, Census Bureau, and the author's calculations.

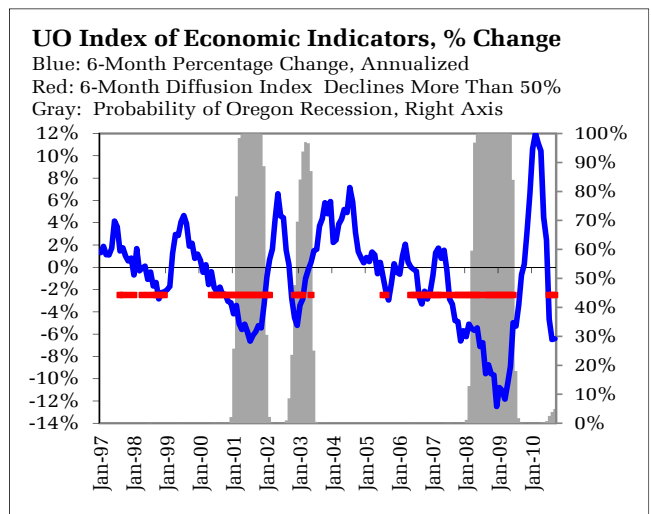
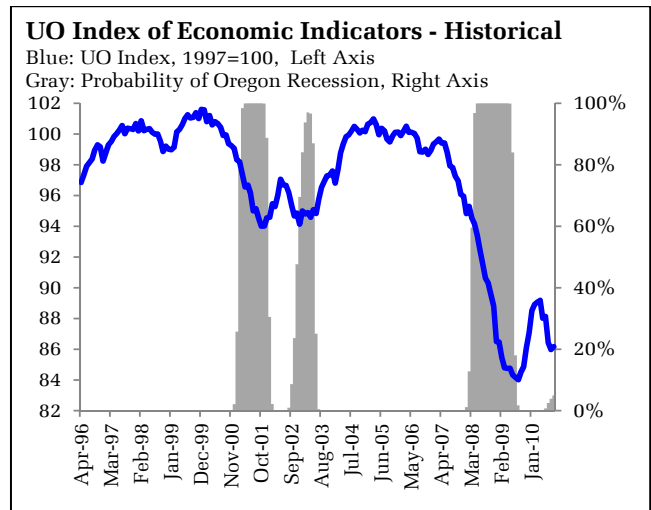


Table 2: Index Components

	2010					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Oregon Initial Unemployment Claims, SA*	9,656	9,794	9,688	10,163	10,447	9,583
Oregon Employment Services Payrolls, SA	28,862	27,431	27,602	27,577	26,499	26,995
Oregon Residential Building Permits, SA, 5 MMA*	769	630	606	480	488	472
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	18,371	18,692	19,013	18,341	18,324	18,652
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	73.3	73.5	73.8	72.6	71.7	70.9
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	37,080	38,741	40,126	37,921	39,705	39,424
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	3.65	3.22	3.02	2.83	2.51	2.46

\* SA—seasonally adjusted; MMA—month moving average

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The goal of the University of Oregon Index of Economic Indicators™ is to create a summary measure of various data that pertain to the Oregon economy.